

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Spring Arbor Township	County Jackson
Fiscal Year End March 31, 2007	Opinion Date September 12, 2007	Date Audit Report Submitted to State September 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

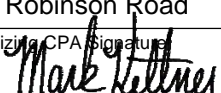
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49204
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673



**Jackson County, Michigan**

**FINANCIAL STATEMENTS**

**For the Year Ended  
March 31, 2007**



**REHMANN ROBSON**

*Certified Public Accountants*

# SPRING ARBOR TOWNSHIP

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



## **INDEPENDENT AUDITORS' REPORT**

September 12, 2007

Board of Trustees  
Township of Spring Arbor  
Spring Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of ***Spring Arbor Township, Michigan***, as of and for the year ended March 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Spring Arbor Township, Michigan, as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund and each major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Spring Arbor Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## **BASIC FINANCIAL STATEMENTS**

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Spring Arbor Township**  
**Statement of Net Assets**  
**March 31, 2007**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 115,970	\$ 95,543	\$ 211,513
Investments	807,819	1,427,035	2,234,854
Receivables, net	114,500	369,420	483,920
Capital assets not being depreciated	431,846	39,098	470,944
Capital assets being depreciated, net	2,403,906	5,101,299	7,505,205
	<hr/>	<hr/>	<hr/>
Total assets	3,874,041	7,032,395	10,906,436
	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>			
Accounts payable and accrued expenses	4,500	53,496	57,996
Long-term liabilities:			
Due in one year	3,239	25,000	28,239
Due in more than one year	50,550	430,000	480,550
	<hr/>	<hr/>	<hr/>
Total liabilities	58,289	508,496	566,785
	<hr/>	<hr/>	<hr/>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,781,963	4,685,397	7,467,360
Restricted for:			
System replacement and improvements	-	1,165,155	1,165,155
Nonexpendable endowment	32,000	-	32,000
Other purposes	580,901	-	580,901
Unrestricted	420,888	673,347	1,094,235
	<hr/>	<hr/>	<hr/>
Total net assets	\$ 3,815,752	\$ 6,523,899	\$ 10,339,651
	<hr/>	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township**  
**Statement of Activities**  
**For the Year Ended March 31, 2007**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Primary government</b>				
Governmental activities:				
Legislative	\$ 20,144	\$ -	\$ -	\$ -
General government	465,758	188,732	76,977	-
Public safety	538,901	725	14,694	-
Public works	79,536	37,324	30,799	-
Recreation and culture	68,121	3,760	1,581	-
Interest on long-term debt	2,264	-	-	-
Total governmental activities	<u>1,174,724</u>	<u>230,541</u>	<u>124,051</u>	<u>-</u>
Business-type activities:				
Sewer	842,791	538,443	93,968	-
Water	308,113	206,932	32,087	-
Total business-type activities	<u>1,150,904</u>	<u>745,375</u>	<u>126,055</u>	<u>-</u>
Total primary government	<u>\$ 2,325,628</u>	<u>\$ 975,916</u>	<u>\$ 250,106</u>	<u>\$ -</u>

continued...

**Spring Arbor Township**  
**Statement of Activities (Concluded)**  
**For the Year Ended March 31, 2007**

<b>Functions/Programs</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Changes in net assets</b>			
Net (expense) revenue	\$ (820,132)	\$ (279,474)	\$ (1,099,606)
General revenues:			
Property taxes	392,727	-	392,727
State shared revenue	520,112	-	520,112
Unrestricted investment earnings	11,871	-	11,871
Contributions to permanent funds	1,000	-	1,000
	<u>925,710</u>	<u>-</u>	<u>925,710</u>
Total general revenues and contributions			
	105,578	(279,474)	(173,896)
Change in net assets			
Net assets, beginning of year	<u>3,710,174</u>	<u>6,803,373</u>	<u>10,513,547</u>
<b>Net assets, end of year</b>	<u><u>\$ 3,815,752</u></u>	<u><u>\$ 6,523,899</u></u>	<u><u>\$ 10,339,651</u></u>

The accompanying notes are an integral part of these financial statements.

# **FUND FINANCIAL STATEMENTS**

**Spring Arbor Township  
Balance Sheet  
Governmental Funds  
March 31, 2007**

	<u>General</u>	<u>Fire Millage</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 66,392	\$ 31,729	\$ 17,849	\$ 115,970
Investments	244,757	502,169	60,893	807,819
Accounts receivable	2,261	485	247	2,993
Interfund receivable	14,667	-	-	14,667
Taxes receivable	12,598	11,244	-	23,842
Special assessments receivable	-	-	3,009	3,009
Due from other governments	84,628	-	-	84,628
Interest receivable	28	-	-	28
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 425,331</u>	<u>\$ 545,627</u>	<u>\$ 81,998</u>	<u>\$ 1,052,956</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Interfund payable	\$ -	\$ -	\$ 14,667	\$ 14,667
Accounts payable	4,443	57	-	4,500
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	4,443	57	14,667	19,167
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund balances</b>				
Unreserved, undesignated	420,888	545,570	-	966,458
Unreserved, undesignated - reported in nonmajor:				
Special revenue funds	-	-	35,331	35,331
Permanent fund	-	-	32,000	32,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	420,888	545,570	67,331	1,033,789
	<hr/>	<hr/>	<hr/>	<hr/>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 425,331</u>	<u>\$ 545,627</u>	<u>\$ 81,998</u>	<u>\$ 1,052,956</u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**March 31, 2007**

Fund balances - total governmental funds	\$ 1,033,789
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	4,628,370
Deduct: accumulated depreciation	(1,792,618)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: installment purchase contract payable	<u>(53,789)</u>
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Net assets of governmental activities	<u><u>\$ 3,815,752</u></u>
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The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township**  
**Statement of Revenue, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended March 31, 2007**

	<b>General</b>	<b>Fire Millage</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
<b>Revenue</b>				
Taxes	\$ 164,430	\$ 186,844	\$ -	\$ 351,274
Special assessments	-	-	41,453	41,453
Licenses and permits	1,549	-	60,360	61,909
State shared revenue	520,112	-	-	520,112
Reimbursements	-	485	-	485
Contributions	-	-	13,723	13,723
Interest and other revenue	258,015	13,709	19,622	291,346
	<u>944,106</u>	<u>201,038</u>	<u>135,158</u>	<u>1,280,302</u>
Total revenue	<u>944,106</u>	<u>201,038</u>	<u>135,158</u>	<u>1,280,302</u>
<b>Expenditures</b>				
Current:				
Legislative	35,950	-	-	35,950
General government	355,601	-	71,727	427,328
Public safety	197,519	262,168	-	459,687
Public works	835	-	40,342	41,177
Recreation and culture	45,339	-	-	45,339
Debt service:				
Principal	-	-	3,115	3,115
Interest	-	-	2,264	2,264
Capital outlay	-	39,759	83,050	122,809
	<u>635,244</u>	<u>301,927</u>	<u>200,498</u>	<u>1,137,669</u>
Total expenditures	<u>635,244</u>	<u>301,927</u>	<u>200,498</u>	<u>1,137,669</u>
Revenue over (under) expenditures	<u>308,862</u>	<u>(100,889)</u>	<u>(65,340)</u>	<u>142,633</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	235,093	56,905	291,998
Transfers (out)	(291,998)	-	-	(291,998)
	<u>(291,998)</u>	<u>235,093</u>	<u>56,905</u>	<u>-</u>
Total other financing sources (uses)	<u>(291,998)</u>	<u>235,093</u>	<u>56,905</u>	<u>-</u>
Net change in fund balances	16,864	134,204	(8,435)	142,633
Fund balances, beginning of year	404,024	411,366	75,766	891,156
<b>Fund balances, end of year</b>	<u><u>\$ 420,888</u></u>	<u><u>\$ 545,570</u></u>	<u><u>\$ 67,331</u></u>	<u><u>\$ 1,033,789</u></u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended March 31, 2007**

Net change in fund balances - total governmental funds	\$ 142,633
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	112,963
Deduct: depreciation expense	(153,133)

Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing long-term debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	<u>3,115</u>
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Change in net assets of governmental activities	<u><u>\$ 105,578</u></u>
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The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township**  
**Statement of Revenue, Expenditures, and Changes**  
**in Fund Balance - Amended Budget and Actual**  
**General Fund**  
**For the Year Ended March 31, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>Revenue</b>				
Taxes:				
Current property taxes	\$ 163,873	\$ 163,873	\$ 151,361	\$ (12,512)
Delinquent property taxes	8,000	8,000	12,598	4,598
Unpaid personal property taxes	200	200	471	271
Total taxes	<u>172,073</u>	<u>172,073</u>	<u>164,430</u>	<u>(7,643)</u>
Licenses and permits:				
Business licenses	250	250	270	20
Trailer permits	1,400	1,400	1,279	(121)
Total licenses and permits	<u>1,650</u>	<u>1,650</u>	<u>1,549</u>	<u>(101)</u>
State shared revenue:				
M-60 Task Force grant	1,500	1,500	346	(1,154)
Liquor licenses	700	700	1,041	341
Sales tax	<u>520,000</u>	<u>520,000</u>	<u>518,725</u>	<u>(1,275)</u>
Total state shared revenue	<u>522,200</u>	<u>522,200</u>	<u>520,112</u>	<u>(2,088)</u>
Interest and other revenue:				
Service fees	14,500	14,500	7,810	(6,690)
Tax collection service fees	75,400	75,400	70,268	(5,132)
Rental fees	250	250	-	(250)
Land division fees	1,200	1,200	725	(475)
Administrative charges:				
Sewer	22,400	22,400	25,446	3,046
Water	9,700	9,700	11,783	2,083
Building cost allocations	13,000	13,000	13,543	543
Private road maintenance	200	200	95	(105)
Cemetery foundations	5,000	5,000	3,948	(1,052)
Grave openings	15,000	15,000	18,525	3,525
Cemetery lot sales	6,000	6,000	4,500	(1,500)
Park user fees	200	200	110	(90)
Senior Center user fees	5,000	5,000	3,650	(1,350)
Parking fines	100	100	110	10
Fines and forfeits	10,000	10,000	10,862	862
Property rental	10,800	10,800	10,800	-
Cable TV royalties	50,000	50,000	52,102	2,102
Reimbursements	9,000	9,000	3,495	(5,505)
Interest and other revenue	<u>9,000</u>	<u>9,130</u>	<u>20,243</u>	<u>11,113</u>
Total interest and other revenue	<u>256,750</u>	<u>256,880</u>	<u>258,015</u>	<u>1,135</u>
Total revenue	<u>952,673</u>	<u>952,803</u>	<u>944,106</u>	<u>(8,697)</u>

Continued...

**Spring Arbor Township**  
**Statement of Revenue, Expenditures, and Changes**  
**in Fund Balance - Amended Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended March 31, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>Expenditures</b>				
Legislative	\$ 40,150	\$ 33,075	\$ 35,950	\$ 2,875
General Government:				
Township Supervisor	62,964	59,664	59,340	(324)
Elections	11,700	11,700	11,262	(438)
Assessor	55,565	55,755	55,573	(182)
Township Clerk	62,299	62,399	61,988	(411)
General Office	17,280	28,004	27,156	(848)
Board of Review	1,800	2,325	2,182	(143)
Treasurer	62,019	67,469	66,985	(484)
Township Hall	17,385	16,161	15,819	(342)
Post Office	3,855	8,855	8,555	(300)
Maintenance Building	1,850	2,350	2,016	(334)
Township Property	14,475	17,075	15,367	(1,708)
Cemetery	43,236	33,936	29,358	(4,578)
Total general government	<u>354,428</u>	<u>365,693</u>	<u>355,601</u>	<u>(10,092)</u>
Public Safety:				
Police	177,622	177,752	178,062	310
Communications	710	1,060	1,031	(29)
Planning Commission	21,555	17,555	17,372	(183)
Zoning Board of Appeals	650	800	754	(46)
Township Street Lights	300	300	300	-
Total public safety	<u>200,837</u>	<u>197,467</u>	<u>197,519</u>	<u>52</u>
Public Works:				
Streets and Roads	600	725	725	-
Private Streets and Roads	200	200	110	(90)
Total public works	<u>800</u>	<u>925</u>	<u>835</u>	<u>(90)</u>
Recreational and Cultural:				
Gallagher Park	24,220	23,405	20,087	(3,318)
Historical Committee	1,000	1,000	1,000	-
Senior Center	27,154	27,154	24,252	(2,902)
Total recreational and cultural	<u>52,374</u>	<u>51,559</u>	<u>45,339</u>	<u>(6,220)</u>
Total expenditures	<u>648,589</u>	<u>648,719</u>	<u>635,244</u>	<u>(13,475)</u>
Revenue over expenditures	304,084	304,084	308,862	4,778
<b>Other financing uses</b>				
Transfers out	<u>(291,998)</u>	<u>(291,998)</u>	<u>(291,998)</u>	<u>-</u>
Net change in fund balances	12,086	12,086	16,864	4,778
Fund balance, beginning of year	<u>404,024</u>	<u>404,024</u>	<u>404,024</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 416,110</u>	<u>\$ 416,110</u>	<u>\$ 420,888</u>	<u>\$ 4,778</u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township  
Statement of Revenue, Expenditures,  
and Changes in Fund Balance - Amended Budget and Actual  
Fire Millage Special Revenue Fund  
For the Year Ended March 31, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Over (Under) Budget</b>
<b>Revenue</b>				
Property taxes	\$ 200,907	\$ 200,907	\$ 186,844	\$ (14,063)
Reimbursements	-	-	485	485
Interest revenue	2,200	2,200	13,709	11,509
	<u>203,107</u>	<u>203,107</u>	<u>201,038</u>	<u>(2,069)</u>
Total revenue				
<b>Expenditures</b>				
Public safety	298,052	298,052	262,168	(35,884)
Capital outlay	100,757	100,757	39,759	(60,998)
	<u>398,809</u>	<u>398,809</u>	<u>301,927</u>	<u>(96,882)</u>
Total expenditures				
Revenue (under) expenditures	(195,702)	(195,702)	(100,889)	94,813
<b>Other financing sources</b>				
Transfers in	235,093	235,093	235,093	-
	<u>39,391</u>	<u>39,391</u>	<u>134,204</u>	<u>94,813</u>
Net change in fund balance				
Fund balance, beginning of year	411,366	411,366	411,366	-
	<u>411,366</u>	<u>411,366</u>	<u>411,366</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 450,757</u>	<u>\$ 450,757</u>	<u>\$ 545,570</u>	<u>\$ 94,813</u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township**  
**Statement of Net Assets**  
**Enterprise Funds**  
**March 31, 2007**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 41,541	\$ 54,002	\$ 95,543
Investments	-	261,880	261,880
Receivables:			
Special assessments	-	344,111	344,111
User fees	16,297	5,074	21,371
Interest	756	-	756
Delinquent user and connection fees	2,096	686	2,782
Total current assets	<u>60,690</u>	<u>665,753</u>	<u>726,443</u>
Noncurrent assets:			
Restricted investments:			
Replacement account	618,557	-	618,557
Improvement account	546,598	-	546,598
Accounts receivable - connection fees	-	400	400
Capital assets, net	<u>2,725,251</u>	<u>2,415,146</u>	<u>5,140,397</u>
Total noncurrent assets	<u>3,890,406</u>	<u>2,415,546</u>	<u>6,305,952</u>
Total assets	<u>3,951,096</u>	<u>3,081,299</u>	<u>7,032,395</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	53,078	418	53,496
Bonds payable - current portion	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Total current liabilities	53,078	25,418	78,496
Long-term debt			
Bonds payable - net of current portion	<u>-</u>	<u>430,000</u>	<u>430,000</u>
Total liabilities	<u>53,078</u>	<u>455,418</u>	<u>508,496</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,725,251	1,960,146	4,685,397
Restricted for replacement and improvements	1,165,155	-	1,165,155
Unrestricted	<u>7,612</u>	<u>665,735</u>	<u>673,347</u>
<b>Total net assets</b>	<u>\$ 3,898,018</u>	<u>\$ 2,625,881</u>	<u>\$ 6,523,899</u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township**  
**Statement of Revenue, Expenses and**  
**Changes in Net Assets**  
**Enterprise Funds**  
**For the Year Ended March 31, 2007**

	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Totals</b>
<b>Operating revenue</b>			
Connection fees	\$ 126,000	\$ 56,520	\$ 182,520
User fees	412,443	147,643	560,086
Penalties	7,679	2,769	10,448
Refunds and reimbursements	24,286	-	24,286
Other	5,016	1,235	6,251
	<hr/>	<hr/>	<hr/>
Total operating revenue	575,424	208,167	783,591
	<hr/>	<hr/>	<hr/>
<b>Operating expenses</b>			
Administrative fees	19,586	8,812	28,398
Pension	882	-	882
Office expenses	5,327	449	5,776
Professional services	6,060	13,715	19,775
Insurance and bonds	8,493	1,970	10,463
Utilities	61,701	2,976	64,677
Water usage	-	132,861	132,861
Treatment charges	349,534	-	349,534
Maintenance	201,833	26	201,859
Depreciation	186,435	71,112	257,547
Other	2,905	56,279	59,184
	<hr/>	<hr/>	<hr/>
Total operating expenses	842,756	288,200	1,130,956
	<hr/>	<hr/>	<hr/>
Operating income (loss)	(267,332)	(80,033)	(347,365)
	<hr/>	<hr/>	<hr/>
<b>Non-operating revenue (expense)</b>			
Interest revenue	56,987	30,852	87,839
Interest expense	(35)	(19,913)	(19,948)
	<hr/>	<hr/>	<hr/>
Total non-operating revenue	56,952	10,939	67,891
	<hr/>	<hr/>	<hr/>
Change in net assets	(210,380)	(69,094)	(279,474)
	<hr/>	<hr/>	<hr/>
Net assets, beginning of year	4,108,398	2,694,975	6,803,373
	<hr/>	<hr/>	<hr/>
<b>Net assets, end of year</b>	<u>\$ 3,898,018</u>	<u>\$ 2,625,881</u>	<u>\$ 6,523,899</u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township**  
**Statement of Cash Flows**  
**Enterprise Funds**  
**For the Year Ended March 31, 2007**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 574,320	\$ 208,062	\$ 782,382
Cash payments to suppliers for goods and services	<u>(648,473)</u>	<u>(216,670)</u>	<u>(865,143)</u>
Net cash provided (used) by operating activities	<u>(74,153)</u>	<u>(8,608)</u>	<u>(82,761)</u>
<b>Cash flows from capital and related financing activities</b>			
Principal payments on long-term debt	-	(25,000)	(25,000)
Interest payments on long-term debt	-	(19,913)	(19,913)
Collections on special assessments	-	26,220	26,220
Purchase of capital assets	<u>(51,918)</u>	<u>-</u>	<u>(51,918)</u>
Net cash used by capital and related financing activities	<u>(51,918)</u>	<u>(18,693)</u>	<u>(70,611)</u>
<b>Cash flows from investing activities</b>			
Interest received on investments	56,952	30,852	87,804
Purchase of investments	-	(94,354)	(94,354)
Sale of investments	<u>60,687</u>	<u>-</u>	<u>60,687</u>
Net cash provided (used) by investing activities	<u>117,639</u>	<u>(63,502)</u>	<u>54,137</u>
Net increase (decrease) in cash and cash equivalents	(8,432)	(90,803)	(99,235)
Cash and cash equivalents, beginning of year	<u>49,973</u>	<u>144,805</u>	<u>194,778</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 41,541</u></u>	<u><u>\$ 54,002</u></u>	<u><u>\$ 95,543</u></u>

continued...

**Spring Arbor Township**  
**Statement of Cash Flows**  
**Enterprise Funds (Concluded)**  
**For the Year Ended March 31, 2007**

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Totals</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (267,332)	\$ (80,033)	\$ (347,365)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	186,435	71,112	257,547
Changes in assets and liabilities:			
Receivables	(1,104)	(105)	(1,209)
Accounts payable	7,848	418	8,266
<b>Net cash provided (used) by operating activities</b>	<u><u>\$ (74,153)</u></u>	<u><u>\$ (8,608)</u></u>	<u><u>\$ (82,761)</u></u>

The accompanying notes are an integral part of these financial statements.

**Spring Arbor Township  
Statement of Fiduciary Net Assets  
Tax Collection Agency Fund  
March 31, 2007**

**ASSETS**

**Assets**

Cash and cash equivalents

\$ 28

**LIABILITIES**

**Liabilities**

Due to other governments

\$ 28

The accompanying notes are an integral part of these financial statements.

## **NOTES to the FINANCIAL STATEMENTS**

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Spring Arbor Township (the “government” or “Township”) is a municipal corporation governed by an elected supervisor and a six-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the respective fund financial statements.

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *fire millage special revenue fund* accounts for the collection of property taxes and expenditures related to the extra voted fire millage.

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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The government reports the following major proprietary funds:

The *sewer enterprise fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water enterprise fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the government reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

*Permanent fund.* This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs.

The *agency fund* accounts for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer enterprise fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### **D. Assets, liabilities and net assets/equity**

#### **1. *Deposits and investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

#### **2. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### **3. *Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), if any, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
System infrastructure	30-50
Vehicles	3-30
Equipment	5-15

#### ***4. Compensated absences***

Annually, the Township grants one week of paid vacation after six months of employment, two weeks after one year employment, three weeks after five years employment, and four weeks after ten years employment. Employees are entitled to one sick day per month, cumulative to fifteen days. Vacation and sick days cannot be carried over and, therefore, are not accrued in the accompanying financial statements.

#### ***5. Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

#### ***6. Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary information

Annual budgets are adopted for all governmental fund types each fiscal year on a basis consistent with generally accepted accounting principles. The government's final budget must be prepared and adopted prior to April 1st of each year.

Reported budgeted amounts are as originally adopted or as amended by the Township Board. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

#### B. Excess of expenditures over appropriations

P. A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended March 31, 2007, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General Fund:</b>			
Legislative	\$ 33,075	\$ 35,950	\$ 2,875
Public safety - Police	177,752	178,062	310

#### C. Deficit fund balance

The following fund reported an accumulated deficit in fund balance as of March 31, 2007:

<b>Special Revenue Fund - Building Inspection Department</b>	<b><u>Accumulated Deficit</u></b>
	\$ 14,667

This deficit will be eliminated by increasing building permit prices.

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

**Statement of Net Assets:**

Cash and Cash equivalents	\$ 211,543
Investments	<u>2,234,854</u>
	<u><u>\$ 2,446,397</u></u>

**Classification of Deposit and Investments:**

Bank deposits (checking accounts, savings accounts and CDs)	\$ 1,410,943
Investments	1,034,854
Cash on hand	<u>600</u>
	<u><u>\$ 2,446,397</u></u>

#### Investments

The Township chooses to disclose its investments by specifically identifying each. As of year end, the Township had the following investments:

<u>Investment</u>	<u>Maturing</u>	<u>Fair Value</u>	<u>Rating</u>
Governmental Cash Management Fund	n/a	\$ 1,034,854	n/a

#### Deposit and investment risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The Township's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on investment credit risk. The Township had no investments that required credit risk ratings at year end.

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. State law does not require and the Township does not have a policy for deposit custodial credit risk. As of year end, \$164,213 of the Township's bank balance of \$1,075,524 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Township does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Township's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### B. Receivables

Receivables as of year end are as follows:

	General Fund	Fire Millage Special Revenue Fund	Nonmajor Governmental Funds	Sewer Enterprise Fund	Water Enterprise Fund	Total
Accounts receivable	\$ 2,261	\$ 485	\$ 247	\$ -	\$ -	\$ 2,993
Taxes receivable	12,598	11,244	-	-	-	23,842
Special assessments receivable	-	-	3,009	-	344,111	347,120
Due from other governments	84,628	-	-	-	-	84,628
Interest receivable	28	-	-	756	-	784
User fees receivable	-	-	-	16,297	5,074	21,371
Delinquent user and connection fees	-	-	-	2,096	686	2,782
Connection fees receivable	-	-	-	-	400	400
	<u>\$ 99,515</u>	<u>\$ 11,729</u>	<u>\$ 3,256</u>	<u>\$ 19,149</u>	<u>\$ 350,271</u>	<u>\$ 483,920</u>

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

### C. Capital assets

Capital assets activity for the year ended March 31, 2007, was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental activities</b>				
Capital assets not being depreciated - land	\$ 431,846	\$ -	\$ -	\$ 431,846
Capital assets being depreciated:				
Land improvements	261,752	-	-	261,752
Building and improvements	1,806,039	5,496	-	1,811,535
Furniture and equipment	843,220	62,909	-	906,129
Vehicles	1,172,550	44,558	-	1,217,108
Total capital assets being depreciated	4,083,561	112,963	-	4,196,524
Less accumulated depreciation for:				
Land improvements	89,890	7,278	-	97,168
Building and improvements	739,874	36,723	-	776,597
Furniture and equipment	399,879	53,407	-	453,286
Vehicles	409,842	55,725	-	465,567
Total accumulated depreciation	1,639,485	153,133	-	1,792,618
Total capital assets being depreciated, net	2,444,076	(40,170)	-	2,403,906
<b>Governmental activities capital assets, net</b>	<b>\$ 2,875,922</b>	<b>\$ (40,170)</b>	<b>\$ -</b>	<b>\$ 2,835,752</b>

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 39,098	\$ -	\$ -	\$ 39,098
Capital assets being depreciated:				
Sewer plant	6,320,474	-	-	6,320,474
Water plant	3,241,957	-	-	3,241,957
Equipment	319,311	51,918	-	371,229
Total capital assets being depreciated	9,881,742	51,918	-	9,933,660
Less accumulated depreciation for:				
Sewer plant	3,708,118	160,055	-	3,868,173
Water plant	768,153	71,112	-	839,265
Equipment	98,543	26,380	-	124,923
Total accumulated depreciation	4,574,814	257,547	-	4,832,361
Total capital assets being depreciated, net	5,306,928	(205,629)	-	5,101,299
<b>Business-type activities capital assets, net</b>	<u><u>\$ 5,346,026</u></u>	<u><u>\$ (205,629)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,140,397</u></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

### Governmental activities:

Legislative	\$ 1,345
General government	51,924
Public safety	81,219
Public works	4,871
Recreation and culture	13,774

**Total depreciation expense - governmental activities** \$ 153,133

### Business-type activities:

Sewer	\$ 186,435
Water	71,112

**Total depreciation expense – business-type activities** \$ 257,547

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### D. Payables

Payables (governmental and business-type activities) are 100 percent vendors.

### E. Long-term debt

*Installment Purchase Agreement.* The government used an installment purchase agreement to provide funds in the amount of \$59,900 for the acquisition of Harmony Park. This installment purchase agreement is expected to be repaid from the Public Improvement special revenue fund. Repayment is due in six annual installments of \$5,380 (including interest), with a final balloon payment of \$41,631 in the seventh year.

Annual debt service requirements to maturity for the purchase agreement are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 3,239	\$ 2,141	\$ 5,380
2009	3,368	2,012	5,380
2010	3,502	1,878	5,380
2011	3,642	1,738	5,380
2012	40,038	1,593	41,631
	<u>\$ 53,789</u>	<u>\$ 9,362</u>	<u>\$ 63,151</u>

*General Obligation Bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for proprietary activities. These bonds are reported in the proprietary funds because they are expected to be repaid from proprietary fund revenues.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Water construction projects	3.50 - 4.75%	<u>\$ 455,000</u>

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

The water supply facilities bond payable is equal to the aggregate outstanding principal and interest payments due on the County of Jackson Water Supply Facilities Bonds (Spring Arbor Township Section). Those bonds were issued to finance the construction of the water supply facilities, which was managed and administered by the Jackson County Department of Public Works under contract with the Township. The cost of the system is capitalized in the Township's Water Enterprise Fund, which is financing the debt service payments through usage fees and special assessments.

Annual debt service requirements to maturity for the bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 25,000	\$ 18,763	\$ 43,763
2009	25,000	17,887	42,887
2010	25,000	17,000	42,000
2011	25,000	16,100	41,100
2012	25,000	15,175	40,175
2013-2017	125,000	61,349	186,349
2018-2022	125,000	35,451	160,451
2023-2025	80,000	7,813	87,813
	<u>\$ 455,000</u>	<u>\$ 189,538</u>	<u>\$ 644,538</u>

*Changes in Long-Term Debt.* Long-term liability activity for the year ended March 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Primary Government</b>					
Governmental activities -					
Installment purchase agreement	<u>\$ 59,900</u>	<u>\$ -</u>	<u>\$ 3,115</u>	<u>\$ 53,789</u>	<u>\$ 3,239</u>
Business-type activities -					
General obligation bonds	<u>\$ 480,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 455,000</u>	<u>\$ 25,000</u>

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### F. Interfund receivables, payables and transfers

For the year ended March 31, 2007, there was a payable due to the general fund from the building inspection department fund in the amount of \$14,667. This was created to eliminate the negative cash balance in the building inspection fund.

For the year ended March 31, 2007, interfund transfers consisted of the following:

	<u>Transfers Out General Fund</u>
<u>Transfers In</u>	
Fire Millage	\$ 235,093
Public Improvement	<u>56,905</u>
	<u><u>\$ 291,998</u></u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## IV. OTHER INFORMATION

### A. Property taxes

Real and personal property taxes are recorded as revenue in the year for which they are levied, provided they are collectible during that year or within 60 days following that year's end. Property tax revenues shown in the General Fund and Fire Millage Special Revenue Fund reflect the 2006 Township levies of 0.8690 mills and 1.0171 mills, respectively, on the taxable valuation of property located in the Township as of the preceding December 31. Taxable values are established annually by the County and are equalized by the State at an estimated 50% of current market value or \$184,734,086. The 2006 levy became a lien on properties on December 1, 2006, and was substantially collected in early 2007. Taxes became delinquent on March 1, 2007.

# SPRING ARBOR TOWNSHIP, MICHIGAN

## Notes To Financial Statements

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### **B. Defined Contribution Pension Plan**

The Spring Arbor Township Pension Plan provides pension benefits for all Township Officials and all other employees who work at least twenty hours per week on a regular basis, and who choose to belong to the plan. This benefit is a bank trust type plan administered by a Pension Committee under the provisions of Section 401(a) of the Internal Revenue Code. Plan provisions and contribution requirements are established and may be amended by the Township Board. The plan is held and administered by John Hancock.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's accounts and the returns on the investments of those contributions.

As amended effective April 1, 1986, the Township may, but is not required to, make a "discretionary contribution" for a plan year to the accounts of all eligible participants. The amount of the contribution is based upon participant compensation for the plan year.

There were 9 members in the plan at March 31, 2007. Contributions to the pension fund by the Township were \$25,783, which is 9% of covered payroll.

\* \* \* \* \*

**COMBINING FUND FINANCIAL  
STATEMENTS**

**Spring Arbor Township  
Combining Balance Sheet  
Nonmajor Governmental Funds  
March 31, 2007**

	<u>Special Revenue Funds</u>			<u>Permanent Fund Historical Committee</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Street Light Fund</u>	<u>Public Improvement</u>	<u>Building Inspection Department</u>		
<b><u>ASSETS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 17,849	\$ -	\$ -	\$ -	\$ 17,849
Investments	-	29,021	-	31,872	60,893
Accounts receivable	-	119	-	128	247
Special assessments receivable	3,009	-	-	-	3,009
	<u>3,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,009</u>
<b><u>TOTAL ASSETS</u></b>	<u>\$ 20,858</u>	<u>\$ 29,140</u>	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ 81,998</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities</b>					
Interfund payable	\$ -	\$ -	\$ 14,667	\$ -	\$ 14,667
	<u>-</u>	<u>-</u>	<u>14,667</u>	<u>-</u>	<u>14,667</u>
<b>Fund balances (deficits)</b>					
Reserved for endowment	-	-	-	32,000	32,000
Unreserved, undesignated	20,858	29,140	(14,667)	-	35,331
	<u>20,858</u>	<u>29,140</u>	<u>(14,667)</u>	<u>-</u>	<u>35,331</u>
Total fund balances	20,858	29,140	(14,667)	32,000	67,331
	<u>20,858</u>	<u>29,140</u>	<u>(14,667)</u>	<u>32,000</u>	<u>67,331</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 20,858</u>	<u>\$ 29,140</u>	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ 81,998</u>

**Spring Arbor Township**  
**Combining Statement of Revenue, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended March 31, 2007**

	<u>Special Revenue Funds</u>			<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Street Light Fund</u>	<u>Public Improvement</u>	<u>Building Inspection Department</u>	<u>Historical Committee</u>	
<b>Revenue</b>					
Current special assessments	\$ 38,444	\$ -	\$ -	\$ -	\$ 38,444
Delinquent special assessments	3,009	-	-	-	3,009
Licenses and permits	-	-	60,360	-	60,360
Contributions	-	12,723	-	1,000	13,723
Interest and other revenue	-	18,076	-	1,546	19,622
	<u>41,453</u>	<u>30,799</u>	<u>60,360</u>	<u>2,546</u>	<u>135,158</u>
Total revenue					
<b>Expenditures</b>					
Current:					
General government	-	-	71,727	-	71,727
Public works	40,342	-	-	-	40,342
Debt service:					
Principal	-	3,115	-	-	3,115
Interest	-	2,264	-	-	2,264
Capital outlay	-	83,050	-	-	83,050
	<u>40,342</u>	<u>88,429</u>	<u>71,727</u>	<u>-</u>	<u>200,498</u>
Total expenditures					
Revenue over (under) expenditures	1,111	(57,630)	(11,367)	2,546	(65,340)
<b>Other financing sources</b>					
Transfers in	-	56,905	-	-	56,905
	<u>1,111</u>	<u>(725)</u>	<u>(11,367)</u>	<u>2,546</u>	<u>(8,435)</u>
Net change in fund balances					
Fund balance (deficit), beginning of year	19,747	29,865	(3,300)	29,454	75,766
<b>Fund balance(deficit), end of year</b>	<u>\$ 20,858</u>	<u>\$ 29,140</u>	<u>\$ (14,667)</u>	<u>\$ 32,000</u>	<u>\$ 67,331</u>



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



September 12, 2007

To the Board of Trustees  
Township of Spring Arbor

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of *Spring Arbor Township* for the year ended March 31, 2007, and have issued our report thereon dated September 12, 2007. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated April 18, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of *Spring Arbor Township*. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by *Spring Arbor Township* are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by *Spring Arbor Township* during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on *Spring Arbor Township's* financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by *Spring Arbor Township*, either individually or in the aggregate, indicate matters that could have a significant effect on *Spring Arbor Township's* financial reporting process except for the entries recorded to adjust depreciation expense to actual and to record various accruals in both the governmental and business-type funds. The entries made to adjust depreciation expense to actual and to record various accruals in both the governmental and business-type funds, which were recorded by management, in our judgment, indicate matters that could have a significant effect on *Spring Arbor Township's* financial reporting process.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Entity’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as *Spring Arbor Township’s* auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the audit committee, the governing body, and management of *Spring Arbor Township* and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# **Township of Spring Arbor**

## **Comments and Recommendations**

**For the Year Ended March 31, 2007**

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During our audit we became aware of certain issues regarding internal control, operating efficiency and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated September 12, 2007 on the financial statements of the Township of Spring Arbor.

### **Internal Controls – Segregation of Duties**

Last year we made a broad comment regarding separation or segregation of duties. That comment is still applicable, but is supplemented with the following specific matters that existed as of September 12, 2007:

- Particular employees may physically receipt cash or checks and make bank deposits.
- Particular employees may authorize or approve invoices for payment and print or otherwise prepare checks.
- Particular employees may handle cash receipts or disbursements and prepare bank reconciliations.
- Particular employees may initiate bank transfers and also prepare bank reconciliations or have direct access to the general ledger.
- Authorized bank accounts and check signers are not periodically approved by the governing board.
- Access to each petty cash box is not limited to a single custodian.
- Completed bank reconciliations are not required to be reviewed (and appropriately documented) by an individual other than the preparer.
- Investment statements are not reconciled to the general ledger monthly by an individual not responsible for managing the investments.
- Not all purchases are supported by either a purchase order or check request, signed by an authorized individual not responsible for preparing checks.
- A check register is not reviewed by an authorized individual not responsible for preparing the checks before the checks are signed.
- Not all accounting personnel are subject to a background check prior to hiring.
- Not all non-salaried employees prepare timecards, timesheets, or other evidence of time worked.
- Before running payroll checks, the payroll register is not reviewed and approved by an authorized individual not responsible for preparing the checks.

# **Township of Spring Arbor**

## **Comments and Recommendations (Continued)**

**For the Year Ended March 31, 2007**

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- Capital assets that are susceptible to theft (e.g., vehicles, computers, etc.) are not appropriately inventoried and monitored throughout the year.
- General journal entries are not reviewed and approved by employee other than the preparer.
- Access to computerized accounting records is not restricted to authorized individuals (e.g., by using passwords).

### **Internal Controls - Financial Reporting**

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting September 12, 2007 (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

# **Township of Spring Arbor**

## **Comments and Recommendations (Continued)**

**For the Year Ended March 31, 2007**

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### **Additional Recommendations on Operational Procedures**

In connection with our prior year audit, we performed additional procedures in order for us to be able to provide recommendations on how the Township could improve on its accounting procedures. Following are the comments and recommendations provided to the Township last year, along with a status up September 12, 2007 on the implementation of these recommendations over the past year.

#### **Cash Disbursement – Prior Year Comment**

Currently, Sewer and Water expenses are handwritten into a general ledger book and checks are typewritten from separate checkbooks by the Treasurer. At the end of the month, the expenses are totaled, by account, and entered into the system by the Clerk, by way of journal entry. Automating these funds would reduce the steps it takes to get the information into the Township's general ledger. Rather than handwriting each expense into ledger books, it is recommended that these disbursements are entered directly into the system through the accounts payable module. This would not only reduce the steps needed, but will also reduce the possibility for error when transferring information from the books to the system. In addition, we recommend that there be one main checking account that all checks, for all of the funds, are written from, which would lead to one main bank reconciliation, thus reducing the need for separate hand run tapes from the Treasurer detailing the outstanding sewer and water checks. This account should be maintained as part of the general fund and periodically, transfers should be made from the Water/Sewer funds to reimburse the general fund for their share of the disbursements made. Reducing the number of bank accounts that have a large quantity of checks being written from them will help streamline the procedures of the Township.

#### ***Implementation of Recommendation –***

Cash disbursements for the sewer and water are now being run through the accounts payable module. The Clerk is now entering information through the payroll system that attributes hours worked on sewer and water activities directly to that fund, rather than the Treasurer reimbursing the general fund through the administration fees each month.

Our recommendation states that there should be one main checking account that all checks, for all of the funds, be written from. While the Township has begun writing the sewer and water checks out of the pooled checking account, checks from the tax account are still being hand-typed and then manually entered into the general ledger at the end of the month.

# **Township of Spring Arbor**

## **Comments and Recommendations (Continued)**

**For the Year Ended March 31, 2007**

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### **Utility Billing – Prior Year Comment**

For metered customers, the meters are read by Summit Township and a report, by customer, is given to Spring Arbor, which details the current amount owed. The Treasurer or Deputy then transfer these amounts to their own report by hand. A 10% fee is added to each customer's amount. A tape is run of both Spring Arbor's report and Summit Township's report (which already shows a total) to prove that the totals match. It appears as though the step of transferring Summit's report to another report is redundant. If these amounts are entered directly into the system, and 10% is automatically added on, it would greatly reduce the manual process of writing each customer's amount and calculating the 10% fee. Once the information is entered into the system, the billing reports show the total of what is to be billed. By simply agreeing this total to the total provided on Summit's report, the Township can be sure that the customers are being billed for the correct amount.

### ***Implementation of Recommendation –***

The Township is in the process of collaborating with BS&A and Summit Township to see if BS&A can write a new program which will allow a download of Summit Township's computerized data to be emailed to Spring Arbor Township's Treasurer. The 10% fee would then be automatically calculated. This process could significantly decrease the time spent by the Township manually transferring amounts received from Summit Township's reports.

### **Cash Receipts – Prior Year Comment**

In connection with our audit, we made various inquiries of management concerning the internal controls in place over key accounting functions. Through these inquiries, we identified that certain miscellaneous cash receipts (such as photocopy or fax fees) are segregated from the primary cash register and entered in summary form on a monthly basis, or as the amounts involve warrant. Because of this practice, there is the possibility of relatively small amounts of cash on hand being unrecorded at a particular point-in-time. While this does not represent a significant risk for material error, the practice would allow these miscellaneous funds to be used to "balance" the daily transactions of the cash register, or to be misplaced and/or misappropriated without ever being properly logged into the Township's accounting system. As a matter of principle, we recommend that all cash receipt be entered and deposited no less than weekly, regardless of amount. Furthermore, we recommend that any overages or shortages identified in the cash register reconciliation process be separately accounted for in a "cash over/short" account for periodic review by management.

## **Township of Spring Arbor**

### **Comments and Recommendations (Concluded)**

**For the Year Ended March 31, 2007**

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#### *Implementation of Recommendation –*

The deposit of these miscellaneous cash receipts are now being done on a weekly basis.

#### **Payroll – Prior Year Comment**

During our review of the payroll system, it was noted that timesheets are not approved by the Supervisor and sometimes not even signed by the employee. In order to enhance internal controls in this area, we recommend that all timesheets be signed by the employee and approved by the Supervisor. This will ensure that individuals are paid for the actual time that they worked.

#### *Implementation of Recommendation –*

Timesheets are now signed by the departmental supervisor. The majority of the employees sign their timesheets, although there are still a few not doing so. The Clerk will be sending a memo out to all employees advising them that they must sign their timesheet.

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